

INTRODUCTION

- With today's dramatic sell-off, we are on the threshold of exceeding the largest minor corrections during this runaway advance. If this occurs, the probabilities are high a major correction will take place.
- This is a major rule of W.D. Gann and it has served me incredibly well during my 36-year career.

- The signal we have started a major correction will be given on a decline to 199.00 basis the HUI Gold Stock Index and 79.49 basis the XAU. Any speculative positions should be exited if these prices are hit.
- I believe the technical condition of this market argues for a hefty correction. In this update I'll give you my best thinking.

- If you have followed my investment advice be prepared to sit through a 30%-35% decline.
- If you have yet to enter long investment positions, the stage could be set for an ideal decline leading to the next major buying opportunity.

- There has never been an instance in history when a 1st leg up in gold stocks has advanced even close to what we have seen. I have Homestake Mining prices back to 1879. On this basis, I have researched outside markets to help get a beat on what we might expect.

OBSERVATIONS

03-GOLD STOCKS

HUI GOLD STOCK INDEX



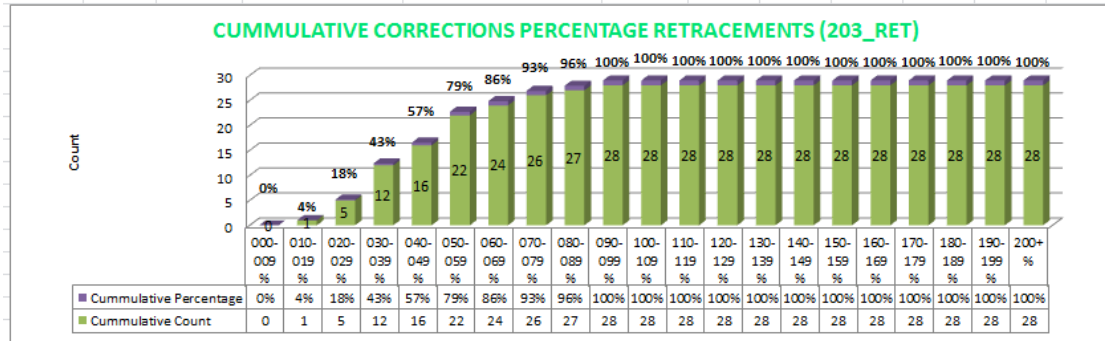
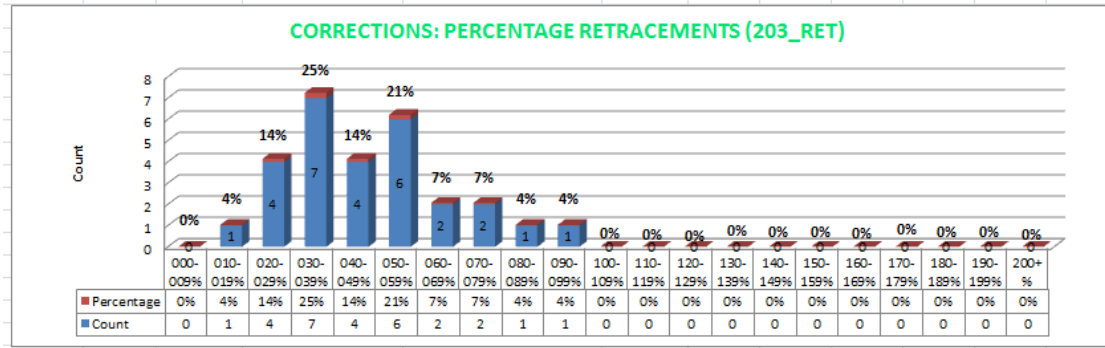
- By way of review, a decline to 199.00 will result in the market exceeding the largest minor corrections on the way up based upon both price and time. It will also break the important breakout retracement low at 199.83.
- At the same time as I said in the last update, a break of 208.33 in the HUI will result in the longest minor correction being exceeded. That will likely be signal enough a major correction has begun.

- I have been doing a lot of studying of historic moves on the order of what we have experienced in the precious metals stocks. Here's what I've found:
 - Out of the more than 5000 years of price history I have in the stock indices and 23 major commodities, there have only been 38 first leg advances which have exceeded 100%.

- Of those 38, 10 established final bull market tops. The duration of our advance has been only 3 months, 13 days. On this basis one wouldn't expect a bull market completion.
- There have only been two instances during the 1st legs up in any bull market when the velocity of the advances were as great as ours. These occurred in sugar in 1967 and heating oil in 1990. In both instances wicked corrections took place.

- Let me say that again. On only two occasions in history in any market in 150 years have we been this overbought during a first leg up. By the law of action and reaction one would have to expect the correction to be very significant.

CORRECTIONS AFTER 1ST LEGS UP IN HISTORY GREATER THAN 100%: 1858 TO PRESENT



CORRECTIONS AFTER 1ST LEGS UP IN HISTORY GREATER THAN 100%



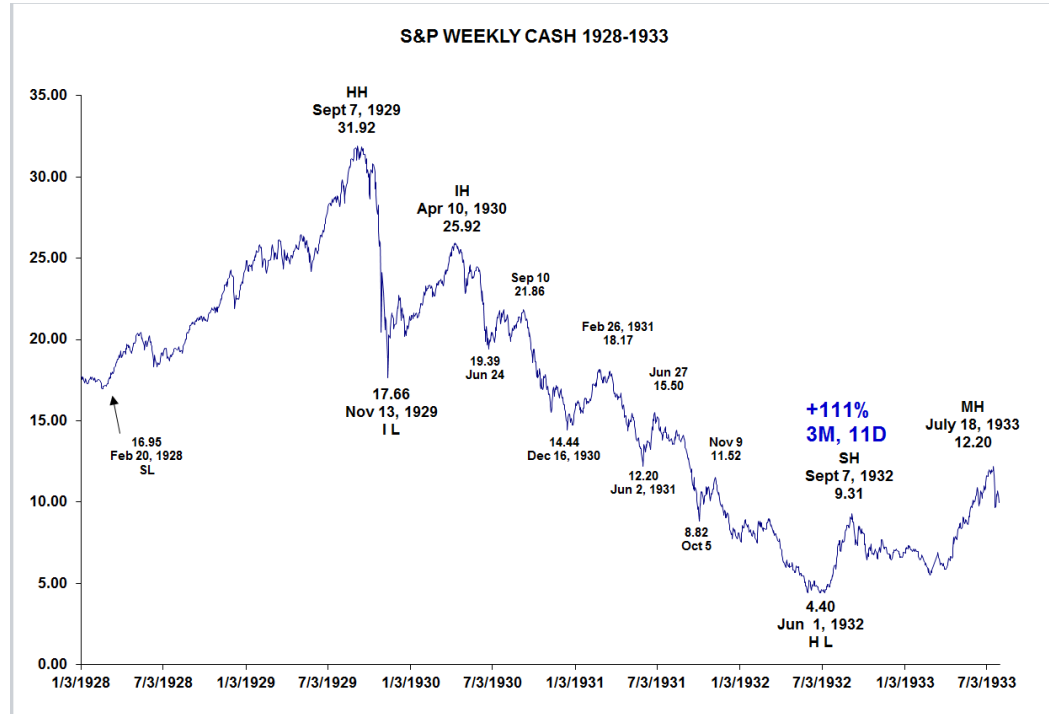
- Looking at the 27 first legs up (excluding final tops), we know from history that in percentage terms there can be significant variability in the extent of the correction when it comes. During 18 of 27 (67%), the corrections retraced between 33% and 66% of the first legs up.

- It is important to point out that as the correction unfolds, the market will provide new evidence of the probable extent of the weakness. This will be based upon the velocity and duration of the decline. For example, if the market retraces 33% in 2 weeks there would be no expectation the decline would stop there since the median decline during these corrections is 2 months, 11 days.

- During the 38 first leg advances exceeding 100%, the median decline was 25%. The median retracement of the advance was 42%. And the median duration of the correction was in 2 months, 11 days. The angle of a 42% retracement in 2m, 11d is shown on the chart.

- Of the 38 first legs up, I narrowed the list to 8 which I would designate as the closest fit in terms of duration and velocity. Of these, only the S&P 500 into the June 1, 1932 low was preceded by a bear market (-86%) as great as our decline in gold stocks (-84%).

S&P 500: FIRST LEG UP AFTER THE GREAT DEPRESSION



- After a 111% advance in 3 months, 11 days, the market declined 41% and retraced a whopping 77% of the preceding advance. Food for thought. Another tipping of the scales for a sizeable shakeout.

CURRENT LEGS UP

METAL & ENERGY MARKETS

03-GOLD	NF	Dec 03, 2015	1046.20	May 02, 2016	1306.00	25%	0y, 4m, 29d
03-XAU	C	Jan 19, 2016	38.36	May 02, 2016	93.66	144%	0y, 3m, 13d
04-SILVER	NF	Dec 15, 2015	13.635	May 02, 2016	18.030	32%	0y, 4m, 17d
05-PLATINUM	NF	Jan 21, 2016	812.20	May 03, 2016	1092.30	34%	0y, 3m, 12d
23-CRUDE OIL	NF	Feb 11, 2016	26.05	May 18, 2016	48.95	88%	0y, 3m, 7d
24-HEATING OIL	NF	Jan 21, 2016	0.8487	May 18, 2016	1.5200	79%	0y, 3m, 27d
25-UNLEADED	NF	Feb 09, 2016	0.8975	May 18, 2016	1.6681	86%	0y, 3m, 9d
32-NAT GAS	NF	Mar 04, 2016	1.6110	Apr 24, 2016	2.3040	43%	0y, 1m, 20d

- If the sell signal is generated, one of the issues which is problematic for the precious metals stocks over the intermediate term (next month), is the extreme relative strength they have demonstrated versus the underlying metals (gold, silver and platinum). In relative terms they are extremely overbought.

- In the table, the 25% advance in gold, 32% advance in silver and 34% advance in platinum are modest by historic standards.

- When these type of “misalignments” occur, the odds favor that the decline when it comes will tend to be more severe. On this basis, one would have to expect the correction in the precious metals stocks to be significant.

MOVES IN GOLD STOCKS VERSUS MOVES IN GOLD

INITIAL LEGS UP IN GOLD STOCKS VS GOLD								CORRECTIONS						GOLD STOCK/GOLD RATIO	
	LEG		DATE OF LOW	PRICE	DATE OF HIGH	PRICE	% ADVANCE	TIME PERIOD	DATE OF LOW	PRICE	POINT DECLINE	% DECLINE	% RETRACE	TIME PERIOD	
1986	1ST	XAU	Jul 25, 1986	58.72	Sep 22, 1986	87.09	48%	0y, 1m, 28d	Dec 30, 1986	66.43	20.66	-24%	73%	0y, 3m, 8d	1.49
		GOLD	Jun 16, 1986	334.70	Oct 08, 1986	443.00	32%	0y, 3m, 22d	Nov 21, 1986	376.50	66.50	-15%	61%	0y, 1m, 13d	
	2ND	XAU	Dec 30, 1986	72.03	Apr 14, 1987	145.86	102%	0y, 3m, 15d	Jun 22, 1987	104.48	41.38	-28%	56%	0y, 2m, 8d	3.49
		GOLD	Nov 21, 1986	376.50	May 20, 1987	487.20	29%	0y, 5m, 29d	Jun 22, 1987	434.00	53.20	-11%	48%	0y, 1m, 2d	
	3RD	XAU	Jun 22, 1987	104.48	Sep 18, 1987	157.02	50%	0y, 2m, 27d							3.20
		GOLD	Jun 22, 1987	434.00	Dec 14, 1987	502.30	16%	0y, 5m, 22d							
1992	1ST	XAU	Nov 27, 1992	64.38	Jul 30, 1993	129.56	101%	0y, 8m, 3d	Sep 13, 1993	94.10	35.46	-27%	54%	0y, 1m, 14d	3.96
		GOLD	Mar 10, 1993	325.80	Aug 02, 1993	409.00	26%	0y, 4m, 23d	Sep 13, 1993	341.40	67.60	-17%	81%	0y, 1m, 11d	
	2ND	XAU	Sep 13, 1993	94.10	Jan 18, 1994	146.32	55%	0y, 4m, 5d							3.36
		GOLD	Sep 13, 1993	341.40	Jan 05, 1994	397.80	17%	0y, 3m, 23d							
2000	1ST	HUI	Nov 16, 2000	35.31	Mar 09, 2001	59.80	69%	0y, 3m, 21d	Apr 02, 2001	47.45	12.35	-21%	50%	0y, 0m, 24d	
		HUI	Apr 02, 2001	47.45	May 21, 2001	79.64	68%	0y, 1m, 19d	Nov 26, 2001	59.86	19.78	-25%	61%	0y, 6m, 5d	3.97
	3RD	GOLD	Apr 02, 2001	255.00	May 21, 2001	298.60	17%	0y, 1m, 19d	Dec 10, 2001	271.20	27.40	-9%	63%	0y, 6m, 19d	
		HUI	Nov 26, 2001	59.86	Jun 04, 2002	154.99	159%	0y, 6m, 9d							
		GOLD	Dec 10, 2001	271.20	Jun 04, 2002	330.30	22%	0y, 5m, 25d							
2008	1ST	HUI	Oct 24, 2008	150.56	Dec 17, 2008	311.38	107%	0y, 1m, 23d	Jan 15, 2009	241.78	69.60	-22%	43%	0y, 0m, 29d	3.47
		GOLD	Oct 24, 2008	681.00	Dec 29, 2008	890.49	31%	0y, 2m, 5d	Jan 15, 2009	802.55	87.94	-10%	42%	0y, 0m, 17d	
	2ND	HUI	Jan 15, 2009	241.78	Jun 01, 2009	404.56	67%	0y, 2m, 5d	Jul 13, 2009	303.22	101.34	-25%	62%	0y, 1m, 12d	
		GOLD	Jan 15, 2009	802.55	Feb 20, 2009	1006.43	25%	0y, 2m, 5d	Apr 24, 2009	859.85	146.58	-15%	72%	0y, 2m, 4d	
	3RD	HUI	Jul 13, 2009	303.22	Dec 02, 2009	516.16	70%	0y, 4m, 19d	Feb 05, 2010	363.25	152.91	-30%	72%	0y, 2m, 3d	1.98
		GOLD	Jul 08, 2009	904.80	Dec 03, 2009	1226.40	36%	0y, 4m, 25d	Feb 05, 2010	1045.20	181.20	-15%	56%	0y, 2m, 2d	
AVERAGE GOLD STOCKS							83%		AVERAGE STOCKS			-25%	59%		3.33
AVERAGE GOLD							25%		AVERAGE GOLD			-13%	59%		
2016	1ST	HUI	Jan 19, 2016	99.19	May 02, 2016	236.23	138%	0y, 3m, 13d							5.62
		XAU	Jan 19, 2016	38.36	May 02, 2016	93.66	144%	0y, 3m, 13d							5.86
		GOLD	Dec 03, 2015	1046.20	May 02, 2016	1303.51	25%	0y, 4m, 29d							

- As noted before, precious metals stocks had advanced at a 6 to 1 ratio relative to the gold into the May 2 high. The previous two greatest relative advances during the 1st leg up in 1992 and the 2nd leg up in 2000 were 4 to 1. At the completion of these moves, the market retraced 54% and 61% of the preceding leg up. That would translate into a 31-35% decline in our market.

OBSERVATIONS

03-GOLD

GOLD NF: MEDIAN CORRECTION



- The median correction in gold retraces 55% of the preceding leg up. That would project to 1162.70 on June 26. Once a correction begins gold will be an important arbiter for what can take place in precious metals stocks.